

THE GLOBE AND MAIL

HD **How to better determine the social and environmental impact of your portfolio**

BY Leslie Cliff and Mike Thiessen

WC 873 words

PD 4 November 2020

SN The Globe and Mail (Breaking News)

SC GMBN

LA English

CY ©2020 The Globe and Mail Inc. All Rights Reserved.

LP

A Net Impact Score enables ESG investors to better align their investments with their values

Leslie Cliff is founding partner and portfolio manager of Genus Capital Management. Mike Thiessen is partner and director, sustainable investments

TD

Impact investing is a fast-growing arm of the responsible investing category. These investments are not only governed by environmental, social and governance factors (ESG), but are executed with the intention of generating a measurable and beneficial impact, alongside a financial return.

According to Global Impact investing Network's 2020 Annual Impact Investor Survey, the impact investing sector has grown to a market size estimated at US\$715-billion in assets under management as of the end of 2019. This popularity is only expected to accelerate as a result of the pandemic, where impact investments in many cases are faring better than traditional portfolios.

This growing interest in impact investing shows that investors are becoming increasingly socially and environmentally conscious, and aligning their investment choices with their personal values. This mindset is not limited to aspiring or seasoned impact investors; traditional investors are also calling for greater transparency about the impact of investments within a portfolio.

When investors and wealth management firms describe investments as having an impact, typically they are referring to a positive social and environmental effect. However, investments can also have a negative impact.

Understanding the nature of this impact, and whether it is positive or negative, enables investors to better align investments with their values and tailor investment decisions.

Currently, investors either screen out industries or companies that don't align with their values or they may integrate ESG into their investment decisions. This is done to remove the negative impacts resulting from investments. Other investors strive to make a measurable and beneficial difference through positive impact investing.

The grey areas

There is, however, an alternative - and smarter - way to measure the overall impact of a portfolio. Instead of negative impact screening or positive impact investing, a more productive approach would be to examine the overall impact of a portfolio, known as either the "net" or "holistic" impact. In doing so, the

destructive and beneficial natures of investments within a portfolio can be captured to provide a single snapshot of the net impact of the portfolio.

Where this screening mechanism system excels is through its ability to capture the grey areas of impact assessment where individual investments can have both a negative and positive impact toward the world.

A Net Impact Score enables investors to better align their investments with their values through increased transparency of the holistic impact of their portfolio. For example, if an investor is striving to make an impact in climate action, they may believe that a few investments in renewable energy will create a net positive impact. However, investors need to measure their entire portfolio to account for investments that detract from this goal.

While we wait for the Net Impact Score approach to gain momentum among wealth management firms, there are actions that investors can take in the meantime to gain a better understanding of the holistic impact of their holdings.

If you have a financial adviser or portfolio manager, ask them to disclose whether you hold stocks in industries that are destructive to consumers' health and well being, employees and/or the environment - for example, tobacco, factory farming, fossil fuels or gambling. Similarly, ask your adviser to disclose whether you have holdings in (positive) impact investments in areas such as education, innovative health care or renewable energy. While this won't capture the grey areas of investments, it should give you a basic oversight of the proportion of your investments that are going toward destructive or beneficial industries. This is a pro-active step toward aligning your investments with your values without compromising returns.

For investors using funds, an important step would be to examine the holdings to see whether there are any red flags in terms of destructive industries being invested in. It's worth noting that there is less agency to change individual investments when using funds so it's important to look into the increasing number of fossil-free and ESG funds that cater to socially and environmentally conscious investors. However, not all fossil-free or ESG funds are created the same. Some of their holdings may surprise you.

Naturally, the net impact of a portfolio will vary depending on the investments within the holding or fund. Becoming more aware of the net impact of investments will enable all tiers of investors and decision makers to better align investments with their values and strive for a more positive overall impact on the environment and society. Let's catalyze this movement by asking questions, urging for transparency and holding ourselves and our financial planners accountable so that we can all strive for a more positive impact on the world.

Be smart with your money. Get the latest investing insights delivered right to your inbox three times a week, with the Globe Investor newsletter. Sign up today.

Follow this link to view this story on globeandmail.com: [How to better determine the social and environmental impact of your portfolio](#)

IN iresinv : Sustainable Investment | iinv : Investing/Securities | i81502 : Trusts/Funds/Financial Vehicles | ialtinv : Alternative Investments | ifinal : Financial Services

NS reqris : Suggested Reading Investing/Securities | redit : Selection of Top Stories/Trends/Analysis | reqr : Suggested Reading Industry News

RE cana : Canada | namz : North America

PUB The Globe and Mail Inc.

AN Document GMBN000020201104egb4005h9

Search Summary

Text	"climate action"
Date	20201014 to 20231231
Source	The Globe and Mail - All sources
Author	All Authors
Company	All Companies

Subject	All Subjects
Industry	All Industries
Region	All Regions
Language	English
Results Found	673
Timestamp	16 August 2023 1:50 PM